

PARADISE CRUISE, LTD.

February 4, 2002

Mr. Alan Castle
Acordia
520 Pike Street, 20th Floor
P.O. Box 91143
Seattle, WA 98111-9243

Dear Alan:

I am submitting the following information to support our Trade Disruption Insurance claim pursuant to the September 11, 2001, World Trade Center attacks (the WTC Tragedy). This discussion is separated into 3 sections: Section 1 covers issues associated with the drops in visitor and passenger counts; Section 2 covers issues associated with the business changes required due to increased security measures (primarily access to Pearl Harbor) and Section 3 covers issues and costs associated with additional security measures taken to protect the Company's assets, customers and increased Coast Guard concern related to access to vessels. Please note that there are no other contributing factors to this loss other than the after affects of the WTC Tragedy as you will see in our comparison for the first 8 months of 2001 compared to 2000.

Section 1 – Declines in visitor and passenger counts:

As Hawaii's major source of revenue is the visitor industry, the cancellation of flights into the state was devastating to many visitor related industries (hotels, restaurants, transportation, wholesale distributions, retail, etc.).

The airports, which represent Hawaii's only method of travel into and out of the state, were officially closed from September 12th through the 15th. No visitors arrived or departed during this time. According to the Department of Business, Economic Development and Tourism, in the 10 days prior to the attacks, passenger arrivals to Hawaii were averaging 19,200 per day (13,000 from the U.S. mainland and 6,200 internationally). After the reopening of the airports, average passenger counts were 11,500, down approximately 36% compared to the same period in 2000. This was only a sign of things to come. Peoples fear of flying and airlines reducing flights into Hawaii disrupted trade and cut further into the flow of visitors to the islands.

The largest group affected was the East bound international arrivals. In particular, we lost approximately \$25,000 of wedding and charter business just for the period from September 13th through the 22nd.

See attached charter sales analysis as Japanese charters had an increase of 36% for the first 8 months of 2001 compared to the 2000; however, we experienced a loss of 84% from September through December. Since Japanese charters account for over 61% of total charter revenues, the losses due to September 11th are even further exacerbated.

In addition, our passenger count analysis indicates the first 8 months of 2001 were approximately 99% of counts of 2000. We were actually ahead of our budgeted expectations for the Star of Honolulu's operations. However, subsequent to the WTC Tragedy, you can see the significant drop off in comparison to 2000 numbers and as compared to our budgets. This reduction is directly related to the reduced airline traffic into Hawaii.

The economy in Hawaii suffered catastrophically. Drops in the visitor counts to Hawaii resulted in increased unemployment claims in the visitor industry segments (hotels, restaurants, retailers, wholesalers, etc.). Many companies, including Paradise Cruise, Ltd. (PCL), were left with little choice but to layoff non-essential positions. PCL laid off approximately 30% of its employees on September 21, 2001 to prepare for the long-term effects of the WTC Tragedy. This was the first time in the history of our 44 years of existence that we have required to do a Company wide reduction in force (RIF).

As of today, January 2002 indications are there will be no quick answer to our economic issues in Hawaii. Certain carriers, such as Japan Airlines, indicate that they are adding flights back onto their schedules. Our best estimation is that 2002 should not be as problematic as the months subsequent to WTC; however, economic and political uncertainties could easily delay the recovery of the visitor industry in Hawaii.

Section 2: Restrictions on Access (Pearl Harbor)

Another result of the WTC Tragedy was our access into Pearl Harbor was cancelled by the Navy. Due to the restrictions on entry, we were forced to discontinue our daily Oahu Coastal / Pearl Harbor Cruise. Management was proactive and created a plan to market and launch a new Hawaiian Lunch Cruise product to replace the Pearl Harbor Cruise. The theme of the cruise was modified to emphasize Hawaiian culture and crafts (weaving, hula dancing, ukulele lessons, etc.), in addition to updating lunch menus, performances and uniforms. This new Hawaiian Lunch Cruise started operations on January 2, 2002. Access into Pearl Harbor continues to be unavailable to us.

The startup costs for this new product are being accumulated as part of the extra expense portion of the Trade Disruption coverage. New uniforms, music, brochure designs, old unusable brochures, etc., menu creation, advertising, payroll for startup costs are being accumulated.

Section 3: Security measures

We also increased our security measures to guard the piers and aboard our vessels at the behest of the U.S. Coast Guard. During the several weeks after September 11th we maintained gangway guards checking identification to allow only authorized personnel on board. The Star of Honolulu already had onboard camera and we also installed security cameras on the Starlet vessels and a secure steel gate restricting access to the vessels in Kewalo basin.

The labor, equipment and uniform costs related to provide this additional security was accumulated and submitted to you as part of the extra expense portion of the Trade Disruption coverage. Upon review by the Coast Guard, we were praised on the quick action taken to insure the safety of passengers and crew.

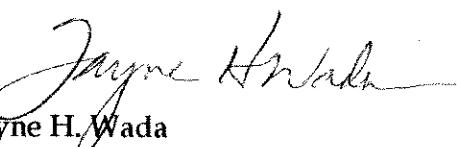
Financial analysis:

The Trade Disruption Insurance analyses for 2000 and 2001 basically recap the passenger counts and revenues by category of products being offered on the Star of Honolulu (the only insured vessel under this policy). As our business is seasonal, the 3 weeks are not a good indication of the trend as our previous year. As noted above, the 2000 passenger counts compared to our 2001 budgeted and actual counts were basically identical for the first 8 months of the year. As of September, the passenger counts and revenues significantly dropped. Basically, the total revenues from September 11, 2000 through December 10, 2000 were \$6,450,966 versus \$2,597,937 for the same period in 2001 or a 60% revenue loss of \$3,853,030 and \$2,414,495 in gross profit.

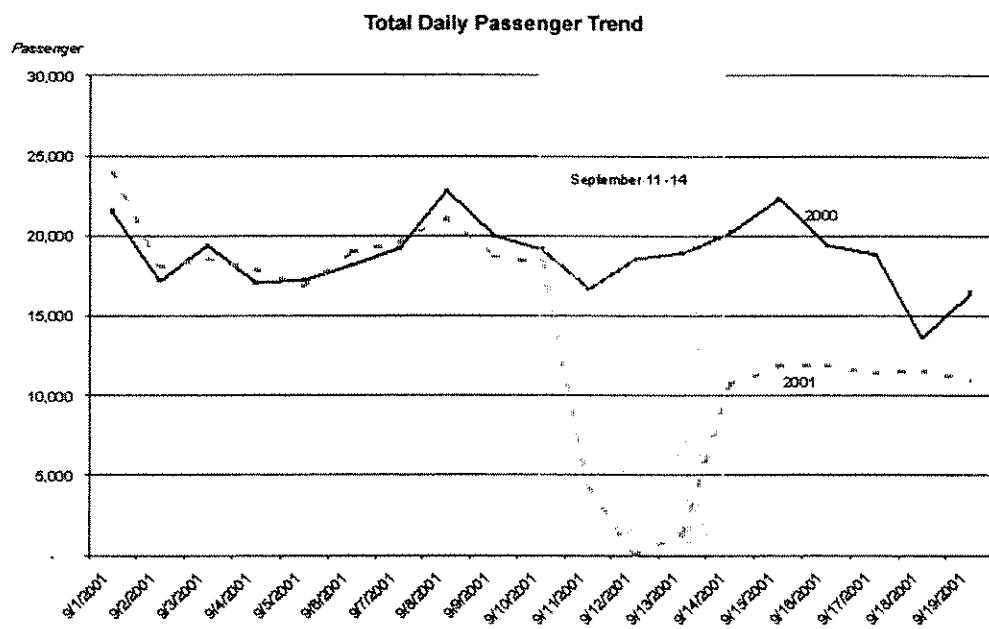
Due to the size of the claim and extent of the revenue and gross profit shortfalls, we are requesting to receive an advance on our TDI coverage. Should the process be delayed, the Company will incur increased expenses related to financing costs to supplement its cash flow and operations. Any assistance in expediting this process would be greatly appreciated. If you have any questions, please call me at (808) 983-7721.

Very truly yours,

Paradise Cruise, Ltd.

By 
Layne H. Wada
Its Vice President - Finance

Copy:
Robert E. Chapman, Esq.



Note: Excluding passengers on flights from Canada

			Summarization of Activity							
			Japanese total (a)		2000	2001		% change	% of total	
			Jan-Aug	Sept-Dec	826,106.00	1,122,729.00	35.91%	2000	2001	
Japanese Charters (a)	2000	2001	978,254.00	23.77%	Jan-Aug	826,106.00	1,122,729.00	35.91%	55.20%	
Jan-Aug	790,364.00	67,772.00		-86.91%	Sept-Dec	560,920.40	90,262.00	-83.91%	63.79%	
Sept-Dec	517,933.40	1,046,026.00		-20.05%		1,387,026.40	1,212,991.00	-12.55%	58.38%	
1,308,297.40									61.63%	
Japanese Other (a)					Western & Direct (b)					
Jan-Aug	35,742.00	144,475.00	304,22%	Jan-Aug	670,494.99	580,796.31	-13.38%	44.80%	34.09%	
Sept-Dec	42,987.00	22,490.00	-47.68%	Sept-Dec	318,469.53	174,341.69	-45.26%	36.21%	65.89%	
78,729.00		166,965.00	112.08%		988,964.52	755,158.00	-23.64%	41.62%	38.37%	
Western (b)					Total					
Jan-Aug	136,097.25	279,744.50	105.55%	Jan-Aug	1,496,600.99	1,703,525.31	13.83%	100.00%	100.00%	
Sept-Dec	88,803.00	2,115.00	-97.62%	Sept-Dec	879,389.93	264,603.69	-69.91%	100.00%	100.00%	
224,900.25		281,859.50	25.33%		2,375,990.92	1,968,129.00	-17.17%	100.00%	100.00%	
Direct (b)										
Jan-Aug	356,048.30	118,238.74	-66.79%							
Sept-Dec	117,758.50	107,118.75	-9.04%							
473,806.80		225,357.49	-52.44%							
5 Star Wedding (b)										
Jan-Aug	78,688.79	100,167.62	27.30%							
Sept-Dec	68,769.76	53,225.04	-22.60%							
147,458.55		153,392.66	4.02%							
5 Star Reception (b)										
Jan-Aug	52,142.52	57,667.06	10.60%							
Sept-Dec	27,067.54	5,070.67	-81.27%							
79,210.06		62,737.73	-20.80%							
3 Star Reception (b)										
Jan-Aug	41,381.38	20,694.89	-49.99%							
Sept-Dec	16,070.73	6,812.23	-57.61%							
57,452.11		27,507.12	-52.12%							
Educational Charters (b)										
Jan-Aug	6,136.75	4,283.50	-30.20%							
Sept-Dec	0.00	0.00	#DIV/0!							
6,136.75		4,283.50	-30.20%							
Total										
Jan-Aug	1,496,600.99	1,703,525.31	13.83%							
Sept-Dec	879,389.93	264,603.69	-69.91%							
2,375,990.92		1,968,129.00	-17.17%							

Paradise Cruise, Ltd.
Analysis of Passenger Counts

Total Star	2000 Act	2001 Bud	2001 Act	00-01 % change	01 bud vs. act
Jan-Aug	255,035	251,613	252,568	-0.97%	100.38%
Sept	30,746	28,489	15,537	-49.47%	54.54%
Oct	33,140	29,454	15,064	-54.54%	51.14%
Nov	32,727	30,665	11,307	-65.45%	36.87%
Dec	26,898	15,648	8,922	-66.83%	57.02%

Total Starlets	2000 Act	2001 Bud	2001 Act	00-01 % change	01 bud vs. act
Jan-Aug	106,479	100,982	98,335	-7.65%	97.38%
Sept	12,322	12,577	7,974	-35.29%	63.40%
Oct	12,761	10,245	6,677	-47.68%	65.17%
Nov	13,107	11,000	5,275	-59.75%	47.95%
Dec	11,101	8,695	6,563	-40.88%	75.48%

Total PCL	2000 Act	2001 Bud	2001 Act	00-01 % change	01 bud vs. act
Jan-Aug	361,514	352,595	350,903	-2.94%	99.52%
Sept	43,068	41,066	23,511	-45.41%	57.25%
Oct	45,901	39,699	21,741	-52.64%	54.76%
Nov	45,834	41,665	16,582	-63.82%	39.80%
Dec	37,999	24,343	15,485	-59.25%	63.61%

PARADISE CRUISE, LTD.
TRADE DISRUPTION INSURANCE ANALYSIS
Calendar Year 2000

Pax Count	OCC	Star	3 Star	5 Star	Photo	Drinks	Other	Total
8/21-8/27	1,106	1,838	3,671	387	1,537		1,106	9,645
8/28-9/3	978	1,630	3,161	391	1,457		978	8,595
9/4-9/10	1,074	1,526	3,727	444	1,640		1,074	9,485
							0	
9/11-9/17	988	1,993	4,042	725	1,727		988	10,463
9/18-9/24	893	1,987	3,323	534	1,556		893	9,186
9/25-10/1	1,107	2,063	3,974	502	1,667		1,107	10,420
10/2-10/8	1,242	2,106	3,859	749	1,785		1,242	10,983
10/9-10/15	1,116	1,986	4,185	771	1,811		1,116	10,985
10/16-10/22	888	2,374	4,092	595	1,678		888	10,515
10/23-10/29	739	1,671	3,498	630	1,427		739	8,704
10/30-11/5	723	1,600	3,900	720	1,254		723	8,920
11/6-11/12	1,559	1,544	3,832	670	1,891		1,559	11,055
11/13-11/19	1,031	1,497	3,430	630	1,371		1,031	8,990
11/20-11/26	1,885	2,070	4,075	633	1,536		1,885	12,084
11/27-12/3	1,204	1,694	4,310	710	1,722		1,204	10,844
12/4-12/10	917	1,917	3,382	562	1,510		917	9,205
	14,292	24,502	49,902	8,431	20,935	0	14,292	132,354
Revenues	OCC	Star	3 Star	5 Star	Photo	Drinks	Other	Total
8/21-8/27	26,603.73	78,567.83	254,263.68	50,084.11	6,280.70	8,238.43	724.00	424,762.48
8/28-9/3	22,837.29	76,059.86	227,591.05	52,804.34	6,167.15	6,422.50	472.00	392,354.19
9/4-9/10	25,021.97	68,991.52	272,054.25	55,481.79	6,712.40	7,972.20	469.50	436,703.63
9/11-9/17	23,150.86	95,019.66	295,973.45	88,019.62	7,225.24	11,837.50	398.00	521,624.33
9/18-9/24	21,502.11	94,354.98	241,218.59	66,388.51	6,882.46	10,179.25	524.75	441,050.65
9/25-10/1	25,922.71	94,840.37	289,814.77	66,280.71	7,858.55	9,720.00	390.00	494,827.11
10/2-10/8	30,714.35	100,743.09	285,049.95	101,715.65	8,231.74	9,195.25	553.50	536,203.53
10/9-10/15	25,386.74	92,209.87	305,456.80	96,928.38	7,877.00	10,354.31	411.50	538,624.60
10/16-10/22	21,646.57	77,617.95	298,429.53	74,765.31	8,149.28	10,123.75	244.65	490,977.04
10/23-10/29	17,730.20	74,175.50	253,527.21	79,719.68	7,443.51	8,718.50	222.00	441,536.60
10/30-11/5	26,445.29	77,277.36	290,579.22	90,322.87	6,276.13	9,001.52	102.50	500,004.89
11/6-11/12	54,142.83	67,165.82	283,895.76	85,463.84	9,104.17	12,417.07	302.25	512,491.74
11/13-11/19	25,087.22	69,484.91	255,536.41	81,927.49	7,273.95	6,022.27	388.25	445,720.50
11/20-11/26	58,542.33	97,578.15	295,194.24	83,988.11	8,249.71	9,308.00	149.50	553,010.04
11/27-12/3	29,381.77	75,703.29	314,986.54	91,322.89	9,071.01	7,626.25	339.00	528,430.75
12/4-12/10	21,013.66	89,270.05	249,314.69	71,353.44	7,648.22	7,379.39	485.50	446,464.95
	380,666.64	1,105,441.00	3,658,977.16	1,078,196.50	101,290.98	121,883.06	4,511.40	6,450,966.74

PARADISE CRUISE, LTD.

TRADE DISRUPTION INSURANCE ANALYSIS

Calendar Year 2001

Pax Count	OCC	Star	3 Star	5 Star	Photo	Drinks	Other	Total
8/21-8/27	1,065	1,763	2,864	307	1,338		1,065	8,402
8/28-9/3	814	1,653	2,509	343	1,196		814	7,329
9/4-9/10	772	1,877	2,838	499	1,383		772	8,141
9/11-9/17	207	1,219	1,025	176	552		207	3,386
9/18-9/24	0	796	945	206	414		0	2,361
9/25-10/1	0	1,025	1,579	298	613		0	3,515
10/2-10/8	0	1,210	2,624	289	978		0	5,101
10/9-10/15	0	1,161	2,313	613	882		0	4,969
10/16-10/22	0	1,153	1,561	245	713		0	3,672
10/23-10/29	0	946	1,280	204	563		0	2,993
10/30-11/5	141	755	1,312	337	477		141	3,163
11/6-11/12	0	837	1,451	275	567		0	3,130
11/13-11/19	0	761	1,338	256	501		0	2,856
11/20-11/26	0	896	1,461	343	510		0	3,210
11/27-12/3	0	766	1,701	218	574		0	3,259
12/4-12/10	0	1,199	1,312	211	520		0	3,242
	348	12,724	19,902	3,671	7,864	0	348	44,857

Revenues	OCC	Star	3 Star	5 Star	Photo	Drinks	Other	Total
8/21-8/27	25,484.89	72,397.18	200,755.03	38,806.13	5,335.22	3,987.00	453.25	347,218.70
8/28-9/3	19,415.55	71,756.73	181,228.03	42,891.30	4,662.23	4,092.00	249.25	324,295.09
9/4-9/10	19,172.75	85,012.76	208,030.35	65,912.38	5,113.87	5,750.00	401.75	389,393.86
9/11-9/17	4,647.82	76,712.96	76,989.82	23,787.98	2,035.44	2,396.00	63.25	186,633.27
9/18-9/24	0.00	35,857.49	69,579.73	25,828.54	2,062.08	2,595.74	0.00	135,923.58
9/25-10/1	0.00	47,159.81	113,599.80	36,288.93	2,840.73	3,364.00	0.00	203,253.27
10/2-10/8	0.00	55,011.54	189,442.97	40,102.00	3,864.35	3,845.00	0.00	292,265.86
10/9-10/15	0.00	52,381.38	163,499.02	75,671.66	3,453.99	4,249.00	0.00	299,255.05
10/16-10/22	0.00	51,837.96	110,370.73	29,620.77	2,917.21	3,863.93	0.00	198,610.60
10/23-10/29	0.00	42,865.38	89,834.59	26,318.64	2,360.56	2,900.00	0.00	164,279.17
10/30-11/5	2,115.00	36,744.94	94,148.57	44,109.12	1,967.40	2,520.00	470.00	182,075.03
11/6-11/12	0.00	38,637.99	101,058.08	35,679.05	2,232.18	2,474.00	0.00	180,081.30
11/13-11/19	0.00	36,249.34	96,796.12	32,127.88	2,125.93	2,552.00	0.00	169,851.27
11/20-11/26	0.00	40,822.76	107,353.60	51,606.50	2,146.42	2,471.00	0.00	204,400.28
11/27-12/3	0.00	35,707.03	119,967.69	35,729.96	2,627.92	4,652.00	0.00	198,684.60
12/4-12/10	0.00	54,770.97	96,669.98	25,487.50	3,267.93	2,427.00	0.00	182,623.38
	6,762.82	604,759.55	1,429,310.70	482,358.53	33,902.15	40,309.67	533.25	2,597,936.67

(A)

(A) - OCC cruise was discontinued due to access into Pearl Harbor after 9/11. The 10/30 revenues related to day charters. The OCC cruise will not be offered. Instead, we needed to create a new product to replace this cruise. In the process of accumulating amounts for this effort as part of TDI.

Paradise Cruise, Ltd.
Analysis of Cost of Goods Sold

Cost of Goods Sold	OCC	Star	3 Star	5 Star
2000	47,4986%	42,7844%	41,7172%	33,0141%
Aug	51,5211%	40,2825%	40,1348%	31,9230%
Sept	45,4054%	39,1816%	39,5515%	33,3858%
Oct				

Cost of Goods Sold	OCC	Star	3 Star	5 Star
2001	40,2024%	40,4793%	37,7731%	31,8949%
Aug	46,2179%	42,2705%	41,4683%	43,0376%
Sept	7,3876%	40,3083%	34,8807%	38,1223%
Oct				

Gross Profit	OCC	Star	3 Star	5 Star
2000	52,5014%	57,2156%	58,2828%	66,9859%
Aug	48,4569%	59,7175%	59,8652%	68,0770%
Sept	54,5946%	60,8184%	60,4465%	66,6142%
Oct				

Gross Profit	OCC	Star	3 Star	5 Star
2001	59,7976%	59,5207%	62,2269%	68,1051%
Aug	53,7821%	57,7795%	58,5317%	56,9624%
Sept	92,6124%	59,6917%	65,1993%	61,8777%
Oct				

Paradise Cruise, Ltd.
Revenue/Gross Profit analysis:

	OCC	Star	3 Star	5 Star	Photo	Other	
2000 9/11-12/10	380,666.64	1,105,441.00	3,658,977.16	1,078,196.50	101,290.98	126,394.46	6,450,966.74
2001 9/11-12/10	6,762.82	604,759.55	1,429,310.70	482,358.53	33,902.15	40,309.67	2,597,403.42
Rev Loss	373,903.82	500,681.45	2,229,666.46	595,837.97	67,388.83	86,084.79	3,853,563.32
% Loss	98.22%	45.29%	60.94%	55.26%	66.53%	68.11%	59.74%
Net Gross Profit	212,339.51	295,305.02	1,382,080.09	371,296.87	67,388.83	86,084.79	2,414,495.11